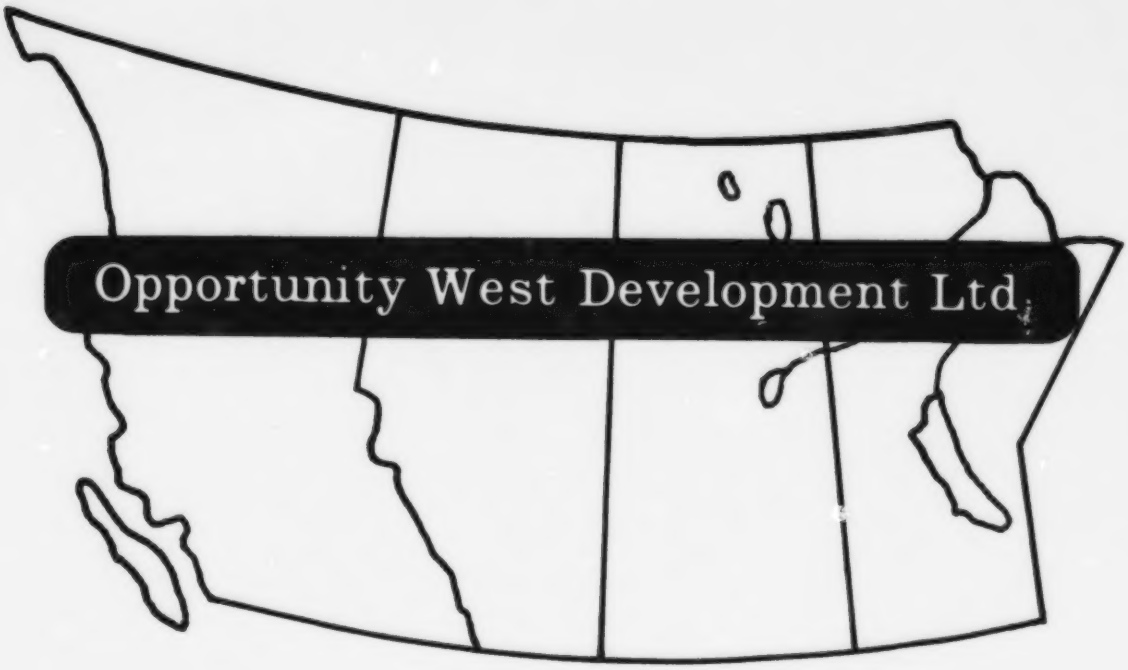

MORTGAGE INSURANCE

IN NORTHERN ALBERTA

MORTGAGE INSURANCE IN NORTHERN ALBERTA

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1.0 INTRODUCTION

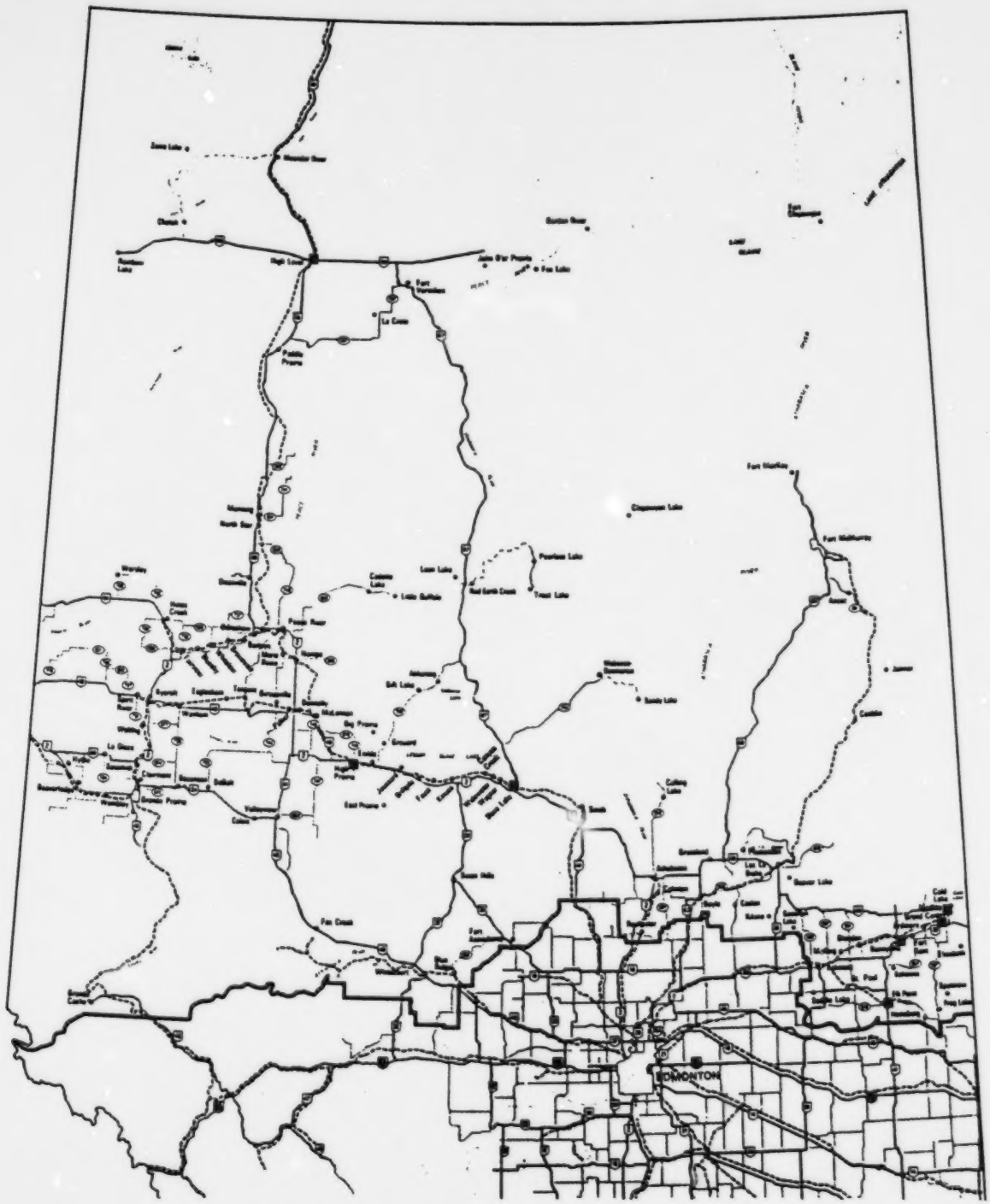
The Northern Alberta Development Council (NADC) commissioned Opportunity West Development Ltd., to respond to Brief #1394, on the subject of the level of service currently provided by the Canada Mortgage and Housing Corporation (CMHC), with specific reference to the delivery of mortgage insurance in northern Alberta.

Brief #1394 was referred to the NADC by the Mayor of High Level, His Worship Bob Walters, on behalf of several citizens of the Town. The Brief indicates that there is a perceived low level of service in communities in the north that are experiencing growth pressures at this time.

As a result, NADC staff made a decision to have Opportunity West Development Ltd., investigate the possibility of low levels of CMHC service in seven communities that are experiencing what are essentially zero (0) vacancy rates. The seven subject communities were:

High Level
High Prairie
Slave Lake
Bonnyville
Grand Centre
Cold Lake
Elk Point

The investigative approach consisted of interviews with building contractors, lenders, realtors, local and provincial government agencies, as well as individuals within CMHC, MICC and AHC. The consultant conducted face-to-face interviews in the communities of High Level, Bonnyville, Grand Centre, Cold Lake, Elk Point and Edmonton. In addition, interviews were conducted via the telephone with individuals in High Prairie, Slave Lake, Elk Point and Edmonton.



NORTHERN ALBERTA DEVELOPMENT COUNCIL AREA

PRIMARY HIGHWAY — SECONDARY ROAD ------ L.O.C. ROAD ---------- RAILWAY

■ COMMUNITIES INCLUDED IN STUDY

2.0 BRIEF # 1394

MORTGAGE INSURANCE

An important facility to any community is an insurance agency to underwrite mortgages of new and existing buildings. According to Canada Mortgage and Housing Corporation they insure one out of every three buildings that are mortgaged in Canada. It is quite likely that CMHC's ratio of activity is quite a bit higher than one third in rural Canada.

There is no doubt that the past five years have been difficult times for mortgagers and mortgage underwriters alike. Compounding the problem is the fact that CMHC is a federal crown corporation who has been subject to federal restraint programs. It is presumed that these factors have led to a perceived loss of service to the building industry. Until early this summer CMHC had an office in Grande Prairie now everything north of Red Deer is serviced by one office. The CMHC office in Edmonton has seven underwriters which handles between 700 to 800 commitments per month.

The Town of High Level, and from our enquiries, other towns are not satisfied with the level of service currently provided by CMHC. We have been unable to identify the root of the problem and feel that the situation may not be quite simple and straight forward. Therefore the Town of High Level asks NADC to commission a research into the state of mortgage underwriting in our area which will identify solutions and options.

3.0 MORTGAGE INSURANCE

There are 3 private insurance companies in Alberta that are licensed to sell mortgage insurance:

MICC, the only private company actively selling it; Scottish & York and Peace Hills Insurance, two companies that are licensed to underwrite mortgages, but have never done it.

Quite often, when an insurance company is getting its charter, it will apply for extras (e.g. mortgage insurance), especially during a boom – to save them making expensive changes later. It would appear that that is what the other two companies have done in this case.

The mortgage insurance market has two basic features. Mortgage insurance is a derived demand, resulting from the demand for mortgages, largely from first-time homebuyers. The dramatic decline in household formation in the 25-34 year age group, which is predicted for Canada, suggests that the demand for new mortgages, and hence mortgage insurance is likely to fall substantially. The industry, therefore, is most likely to be a declining industry over the next ten to twenty years. The second basic feature of the market is that a principal source of demand for mortgage insurance results from the imposition of a regulation on the provision of mortgages which requires that mortgage loans in excess of a prescribed maximum loan-to-value ratio, be insured by either CMHC, or its private competitor, the Mortgage Insurance Company of Canada (MICC).

The current situation is one of public-private competition between CMHC and MICC, with the industry experiencing substantial difficulties, "particularly due to defaults on mortgages in Alberta." The competition between CMHC and MICC is widely believed to be "unfair", in that CMHC has recourse to the financial resources of the federal government, and therefore, is not subject to the same bottom-line constraints that MICC must face.

Long-term prospects for growth in the industry are minimal, and any additional entry for the private sector into the industry is unlikely given the continued presence of CMHC as the dominant firm within the industry.

Nevertheless, there is a commitment on the part of CMHC to withdraw, at least somewhat from this market, in favour of private firms. CMHC would like to withdraw in a manner that promotes the orderly and

stable growth of private firms in the market, conditional on the nature of the final demand.

In recent years, there has been considerable discussion concerning the role of government in relation to mortgage insurance in Canada. Both the Matthews Report (1979) and the Economic Council of Canada (1982) have recommended that CMHC scale down its direct insurance activities in this area, by gradually withdrawing from the direct provision of this type of insurance. Both these reports recommend that the government redefine its role in this area by providing reinsurance to private sector insurers operating in this field. However, it must be remembered that the existing public mortgage insurance program has been used to fulfill a multitude of objectives. The subtle inclusion of social objectives, aimed at the lower end of the housing scale, demanded a role for a public sector mortgage insurance body.

3.1 CMHC

The National Housing Act (NHA) was formulated in 1944 by the Federal Government, to help meet a massive housing requirement facing Canada at the end of World War II. The original purpose of the NHA was to improve housing and living conditions for Canadians and, as a corollary, to stimulate employment in the years following World War II. A key element in this continuing task was the inception of the Central (now Canada) Mortgage and Housing Corporation (CMHC) in 1946, as Canada's national housing agency.

Canada's parliament introduced a system of loan insurance, to be administered by CMHC, in 1954. Under this new system, loans were advanced entirely by private lenders, who were guaranteed against loss, in the event of borrower default, through CMHC's generation of a Mortgage Insurance Fund (MIF). In 1954, as well, the Bank Act was amended in a complementary fashion to allow Canada's chartered banks to make mortgage loans for the first time.

Underwriters have been around for centuries. The designation has historically been used to described a marine insurer. It meant a person that assessed the risk of a particular incident happening or not happening.

In the context of mortgage lending, or mortgage loan insurance, the underwriter assesses the risk of the borrower not repaying the debt.

In the case of the insurer, the premium charged reflects the risk assessment. The risk of failure is, of course, identical for the lender and the insurer.

Mortgage insurance marked its 30th anniversary in Canada in 1984. During this period, over 65 billion dollars in insured loans was committed on over 2,200,000 housing units, on almost 35 to 40% of all residential loans made by lenders. An adequate supply of long term mortgage funds at low interest rates combined with a buoyant economy during the first 20 years of NHA mortgage insurance, saw house prices increase or remain stable. This meant almost risk-free lending. In fact, by 1976, the Mortgage Insurance Fund (MIF) had assets of over 500 million dollars, with few claims.

In 1969, mortgage insurance premiums were cut from the 2% originally established, to 1%. This was a direct result of CMHC's first 15 years of low claims. Then in 1982, following the high level of claims in 1980 and 1981, mortgage insurance premiums were increased by 50% and loan-to-value ratios were cut back 5%. Mortgage defaults increased dramatically in the late 1970's. Claims against the MIF were almost 500 million dollars in 1979 alone. Increased mortgage defaults were a direct result of over-saturation of the housing market. Since 1978, the MIF has been operating at a deficit. By 1984, the deficit had reached 786 million dollars.

The continuing weakness of the Canadian economy, combined with rising mortgage default, has prompted CMHC to again review their premium's structure.

In an effort to put the MIF on a self financing basis, it was decided to introduce the following changes:

- In 1982, higher premiums and lower loan ratios were introduced.
- In 1983, deficiency settlements were introduced to speed the claim process and reduce cost. (To encourage this option, lenders were offered a $500 fee in September, 1984.)
- In 1984, the federal government assumed that part of the MIF deficit liability due to AHOP, ARP and GPM.
- In 1985, higher premiums and more realistic fees were introduced. Private sector appraisals were encouraged.
- Lenders with high claim ratios were required to take action to improve practices.

- Higher underwriting standards on multiples.
- Claims on multiple projects were subject to 'work out'.
- Implementation of new real estate marketing techniques.

In addition, CMHC is addressing other possible changes for the future. These include:

- Limiting the cost of mortgage insurance initiation
- Alternative methods of delivering insurance
- Improved underwriting standards on single family dwellings.

CMHC hopes that an improved economy will contribute to a reduction in the number of mortgage defaults. The ready availability of mortgage funds at favourable interest rates will provide further stimulus to the housing market, ensuring continued demand for NHA mortgage loan insurance. CMHC is confident that these factors, coupled with the higher premiums which were introduced this year (see below), will assist the early return of the MIF to self-financing status.

NHA INSURED FIRST MORTGAGE LOANS FOR HOMEOWNERSHIP

General Information

- NHA mortgage loan insurance available for first mortgage loans on all types of residential buildings
- Technical and professional expertise available from CMHC
- No maximum loan amount
- Minimum term: one year
- Amortization period: up to 40 years
- Loan ratios: 90% of first $80,000, 80% of balance
- G.D.S.: 32% (42% for duplexes) based on principal, interest, taxes, heating costs and, if applicable, 50% of condominium fees

Premiums

Loan to Lending Value Ratio	Existing Housing	New Construction
75% or lower	1.00%	1.50%
Over 75% to 80%	1.50%	2.00%
Over 80% to 85%	2.00%	2.50%
Over 85% to 90%	2.50%	3.00%

(Note: 1.00% surcharge for new construction of condominiums)

3.2 MICC

The Mortgage Insurance Company of Canada (MICC) was the first private mortgage company formed in Canada. It was incorporated by an Act of the Federal Parliament, passed on December 21, 1963. Operations commenced in June 1964, from one office in Toronto, Ontario.

MICC was formed to fill a gap in the market that was not being served by NHA insured mortgages - i.e., the insurance of mortgages on existing homes and more expensive new homes (the maximum mortgage insurable under CMHC in 1964 was $15,600).

A major breakthrough for private mortgage insurance in Canada occurred in the spring of 1970. By amendment of the Federal legislation governing the investment powers of regulated financial institutions, the banks, trust, loan and insurance companies, were authorized to make mortgage loans in excess of 75% of value, provided the amount of loan in excess of 75% was insured, either under NHA or by a private mortgage insurance company.

In 1972, the maximum NHA house loan was raised to 95%, and in 1973, the premium was reduced to 1% (from 2%). MICC followed suit.

When MICC was launched in 1964, it had 23 approved lenders. By the end of 1979, this group had been enlarged to 510; 11 chartered banks,

100 trust and loan companies, 51 insurance companies, 259 credit unions and caisses populaires and a variety of other types of financial institutions, numbering 89. In 1972, MICC went public through its parent, MICC Investments Limited. In 1973, two other private mortgage insurance companies entered the field. Insmor Mortgage Insurance Company and Sovereign Mortgage Insurance Company were both owned by major Financial institutions. In 1977, Insmor and Sovereign merged.

During the 1970's, business volumes increased substantially, along with interest rates and inflation in real estate prices. In 1978, MICC insured a record $4.95 billion in commitments. By the end of the 1970's, insured mortgages comprised 65% of total mortgage approvals by lending institutions in Canada.

In late 1981, MICC and Insmor merged, once again leaving MICC as the only private mortgage insurance company in Canada. MICC lobbied the federal government in the early 1980's to have the NHA application fee and premiums structure increased, at least to a cost recovery basis. In 1981, the application fee was increased to $100. However, the premium was not changed. MICC concluded that for a 1 1/2% premium, it was not possible to service the full market that they had been serving. On January 1st, 1983, MICC moved to restrict new business to the larger communities in the country, where they had offices, and to areas which were located within easy commuting distance of them. In addition, the minimum equity was increased from 5% to 10%, by reducing the maximum loan to value ratio from 95% to 90%.

In 1982, the National Housing Act was amended to require that income from fees, premiums and investments should be adequate to cover all over-head claims and costs of the NHA Mortgage Insurance Fund. Thus, in January 1985, CMHC introduced substantial increases in the level of NHA application fees and premiums. MICC duplicated these increases by the end of March.

During the 1980's, the insured share of the mortgage market has dropped (it was about 37% in 1984), primarily as a result of high interest rates and affordability problems. MICC's market has declined sharply also. In addition, mortgage insurance losses rose dramatically from $50 million in 1980 to $132 million in 1984. Total losses for the last five years were $410 million. MICC has lost an average of $25000 per claim over the last three years in Alberta. Of all the policies written in Alberta since 1978, 30% have soured. This compares to a claim rate of 5% across the rest of Canada. Thus, MICC has been hit the hardest, by some considerable degree, in Alberta.

When the market was buoyant, MICC competed head-to-head with CMHC. During that period of growth, MICC and CMHC probably split the Edmonton market equally. However, since January 1, 1983, MICC is only underwriting mortgages in Edmonton, Red Deer, Calgary, Lethbridge and Medicine Hat. MICC is **not** interested in any mortgage insurance business anywhere else in Alberta. The philosophy of the company may be characterized in the following way:

> MICC contends that when they insure a mortgage for 20 years, they are insuring the economy of the area in which that mortgage is being used for those 20 years. They are not prepared to do that in rural Alberta. MICC is private enterprise and it claims it can't be profitable in rural areas. Further, MICC officials feel that there is a role for the publicly supported CMHC and AMHC in the more risky rural markets. To a large extent, that is why the public insurers were created.

MICC does not rule out re-entering the rural market again in the future. However, they would hesitate to do so without even partial guarantees from the government. MICC is, contrary to rumors in the market place, a healthy company once again. One of its owners has recently provided the company with a $60 million capital injection. As a result, MICC is as robust as it ever was.

In terms of delivery of their services, MICC has always been far ahead of CMHC. MICC has a goal of approving all deals within 24 hours. This goal is largely met. Some of MICC's decision criteria requirements give it a distinct advantage in this regard. MICC is prepared to use the lender's underwriting criteria, whereas CMHC's requirements are far greater than those typically required by a lender. MICC will accept an accredited appraiser's inspection, whereas, all final CMHC insurance inspections must be completed by a CMHC inspector. This requirement, of course, adds to turn-around time because of the travel involved. This time lapse is exacerbated by the rural versus urban nature of CMHC's portfolio. MICC's entire portfolio is now in large urban centres. The Edmonton office of CMHC, with a territory that stretches from the Alberta - Northwest Territories border, to an east-west line thirty miles south of Red Deer, has a portfolio that is classified as 50% rural. By contrast, 95% of the business conducted by CMHC's Calgary office is in the City of Calgary.

3.3 Delivering CMHC Mortgage Insurance in Northern Alberta: The Logistics

Surprisingly, up until 1982, CMHC did virtually no mortgage insurance business in Alberta. Up until that time, MICC and AMHC (with the low-income, subsidized niche in the market) dominated the Alberta scene. However, with the downturn in Alberta's economy, there was a corresponding increase in the demand for CMHC's mortgage insurance services.

YEAR	CMHC's MORTGAGE INSURANCE POLICIES IN ALBERTA
1982	900
1983	1900
1984	5500
1985	7500 + (projected)

In rural Alberta, CMHC became "the only game in town". Presently, CMHC is writing 85% of all mortgage insurance portfolios, and 50% of all policies on new houses in Alberta.

CMHC stopped underwriting speculation housing in January of this year. This missing component of their portfolio has had the biggest impact on northern building contractors. CMHC has, however, maintained one of its programs for introducing spec housing to the market place. A builder may build one or two show homes, however, he must then retain possession of these show homes for a period of several months. If he complies with all of CMHC's prerequisites under this program, then CMHC will underwrite the insurance on the mortgage (up to 90% of the appraised value of the house).

In an effort to speed up the delivery of services in rural areas, CMHC will accept interim inspections* on new construction from certified appraisers (with CRA or AACI designations), however, CMHC inspectors must conduct the final inspection themselves. CMHC will follow these procedures with certified builders only, and the builders must

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* Two interim inspections are typical
  a) before backfilling over weeping tile; and,
  b) before closing in framing.

  A builder wishing to use non-CMHC professionals must seek CMHC acceptance of the proposed designated consultant(s) in advance of a construction start, using CMHC Form 2010.

indicate in advance that they wish to follow this procedure. This fee appraisal system was introduced two years ago. Of the 7500, plus mortgages that CMHC will underwrite in its northern territory this year, only about 1500 will be inspected by one of CMHC's seven, Edmonton-based inspectors. Currently, of these 7500 files, approximately 100 are show homes and 700 to 800 are new homes, with the balance being existing homes. Thus, about 10% of all homes underwritten by the Edmonton office of CMHC in 1985, are new homes.

As was mentioned above, the Edmonton CMHC office has 7 inspectors. Until this year, CMHC also operated offices in Red Deer and Grande Prairie. However, these were closed as a result of new federal restraint guidelines. What are the responsibilities of these seven inspectors? In addition to inspecting for mortgage insurance underwriting requirements, these inspectors are also called upon to inspect for Urea Formaldhyde Foam Insulation (UFFI), CHIP, CHAP, real estate approvals, apartment buildings, deficiency claims, NHA code inquiries, etc. (the office administers more than a dozen programs). It is an understatement to claim that CMHC's Edmonton-based inspectors are busy, and pulled in many directions at once. Supporting these inspectors, CMHC has a staff of seven (including the manager) in the Edmonton office. Current federal guidelines call for 1360 loans for each additional staff person. Thus, at 7500, plus loans in 1985, the Edmonton office is overstaffed. Of course, in reality, the office is woefully understaffed. Demands on the Edmonton office staff have led to the loss of 4 man-months, so far this year, in absenteeism.* The Edmonton branch is processing more applications than ever before, with less staff.

In terms of pure logistics, the Edmonton CMHC mortgage insurance office is interacting with an active list of between 300 and 400 certified builders, some 700 financial institutions and a similar number of real estate companies. All of these actors in the insurance business must be kept informed of each and every change in procedures that CMHC introduces. Not surprisingly, lender education is a goal of the Edmonton CMHC office. Further logistical data serves to show the size of the task of delivering mortgage insurance in northern Alberta. A minimum of 20% of all application packages are returned to the lender because they are incomplete the first time. On the average, 9 individuals at CMHC are required to handle each application package. The office is processing about 700 application packages per month (70 to 80 new houses per month) year round.

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* The manager attributes this to the excessively high level of demand for their services and resultant "burn-out".

Perhaps the best way to describe the activities of CMHC's inspectors in northern Alberta is to suggest that they make regularly scheduled trips on an irregular basis. Most commonly, they were in a community where they are desperately needed, the day before. Typically, an inspector will not visit a community until he has enough requests there to justify a trip (perhaps six or seven inspections). Thus, requests are stacked up until trips are warranted or considered efficient. This can lead to extended delays. On the other hand, CMHC inspectors will visit some of the more active communities on a routine basis. Again, the small number of inspectors, the vast territory and the demands on these inspectors lead to logistical nightmares.

In summary, it may be quite clearly stated that the logistics of delivering CMHC's mortgage insurance programs are challenging indeed. There are many areas where the service can be improved and these will be addressed later. However, the difficulty of delivering this complex program to a myriad of demanding users should not be underestimated by those users. Tolerance, understanding and improved communication will go a long way towards enhancing the delivery of CMHC's mortgage insurance.

4.0 THE PURPOSE, ROLE AND IMPORTANCE OF MORTGAGE INSURANCE IN NORTHERN ALBERTA

The 1984 population of the NADC area of northern Alberta was estimated to be 243,292. About 25% of that population reside in the two major northern cities of Grande Prairie and Fort McMurray. A further 25% reside in towns of 1000 to 5000 population, with the balance scattered throughout rural areas and communities of under 1,000 people. Over the next 20 years, Alberta's north will grow faster than the south, probably averaging 3% per annum.

The labor force in northern Alberta is heavily concentrated in the primary industries of agriculture, forestry, oil and gas, fishing and mining. About 33% of the work force is employed in these renewable and non-renewable resource industries, with another 33% employed in the service sectors generated by these industries. As the climate for oil and gas investment improves, the rate of population growth in many areas of northern Alberta will increase.

Northern Alberta's population is mobile. Further, most of its growth is generated by an influx of outsiders. But, more importantly in the context of this analysis of the subject of mortgage insurance, one of the fastest growing cohorts of northern Alberta's population pyramid is that of young couples and young families. This cohort exhibits one very important attribute as they earn their relatively large pay cheques in the resource development sector – they yearn to buy their first homes.

The influx of labor to resource extraction, growth areas strains existing accommodation. Initially, short term rental accommodation (hotel, motel, boarding house) will suffice. Subsequently, this expanding labor force demands longer term rental accommodation and then a growing segment, seek to purchase their own homes. In many cases, these are first-time home purchasers. First-time home owners are typically in the 10% down payment, high-ratio borrower category. In short, they are candidates for mortgage insurance. All mortgages that constitute more than 75% of the subject property's appraised value, must be insured in Canada (with the exception of Treasury Branch mortgages).

It goes without saying that building contractors in areas of above average, resource-based population growth, are anxious to build homes in the first-home buyer category. Further, in certain communities, demand is such that these builders would like to build these structures on a speculative basis. Many builders indicate that the

900 to 1000 square foot standard, single family dwelling cannot be economically built in lots of one. Rather, they would sooner build eight to ten of these houses at one time, in order to achieve some economies of scale. Assumable builder's mortgages with a 10% downpayment requirement on behalf of the purchaser, on houses in the $70,000.00 to $85,000.00 range (in the communities identified for this study), are the target market for first-time buyers. These parameters cannot be satisfied without mortgage insurance.

Similarly, the demand for new rental accommodations is high in the growth communities named in this study. Again, building contractors stand a greater chance of securing financing for such projects if the lending institutions are able to secure mortgage insurance. At this point in time, there is no shortage of mortgage money in Canada, and lending rates are favourable. The incidence of mortgage insurance is, however, not quite as ubiquitous as the sources of funds, nor as freely offered as are those funds. The chartered banks seem determined to write a certain percentage of mortgages and Alberta's Treasury Branches are leaving all lenders in their wake in rural Alberta.

Another sub-sector of the market in growth communities consists of people wishing to buy their second or third home. These buyers typically have larger downpayments, and they may be middle level managers and engineers with the resource companies. They are being transferred from the city and are in the $85,000 to $120,000 house range. In these cases, the builder is usually building pre-sold, somewhat custom homes, with financing unencumbered by mortgage insurance. Builders are attracted to these houses because it is easier to secure financing to build them, and no dealings with CMHC are required. However, the enticement of this segment leaves a greater void at the lower end of the housing scale. Further, the demand at the lower end of the rental and housing scale is usually greater, and thus it forces the prices up for those that can least afford it.

Thus, there is a role and purpose for mortgage insurance in northern Alberta. The importance of the provision of mortgage insurance, particularly for starter homes and rental accommodation, cannot be overstated. Under existing legislation in Canada, mortgage insurance is mandatory for any purchaser with less than 25% equity (except in the case of Treasury Branch who will accept 20% equity and an uninsured mortgage on the balance). In northern Alberta resource communities, with their relatively high growth rates, the greatest demand will be for the kinds of accommodation where mortgage insurance will be a required part of the financing package.

5.0 COMMUNITIES IN ALBERTA WHERE RESIDENTIAL CONSTRUCTION AND MORTGAGE INSURANCE ARE MOST NEEDED

Seven communities have been identified for the purposes of this study:

1. High Level
2. High Prairie
3. Slave Lake
4. Bonnyville
5. Grand Centre
6. Cold Lake
7. Elk Point

These communities share several characteristics at this point in time:

- They are all experiencing above average growth pressures. Each of these communities are recording growth rates in the 6% to 10% range, in a province that is growing at a rate of less than 3%.

- Vacancy rates in each of these communities are essentially zero (0).

- All of these communities are experiencing an influx of population and a growing demand on the existing housing stock.

- All of these communities are being subjected to these growth strains as a result of the development of some primary renewable and/or non-renewable resources in their vicinity.

- All of these communities are in northern Alberta and are served by the Edmonton office of Canada Mortgage and Housing Corporation (CMHC), and its mortgage insurance program.

- With the exception of High Level, all of the communities identified for investigation in this study, are either in, or border on one of Alberta's four massive oil sands deposits:

  Peace River, Wabasca, Ft. McMurray and Cold Lake. The oil sands contain enough ultimately recoverable crude, to supply Canada's needs for 430 years, or to extend world supplies by about 10.2 years.*

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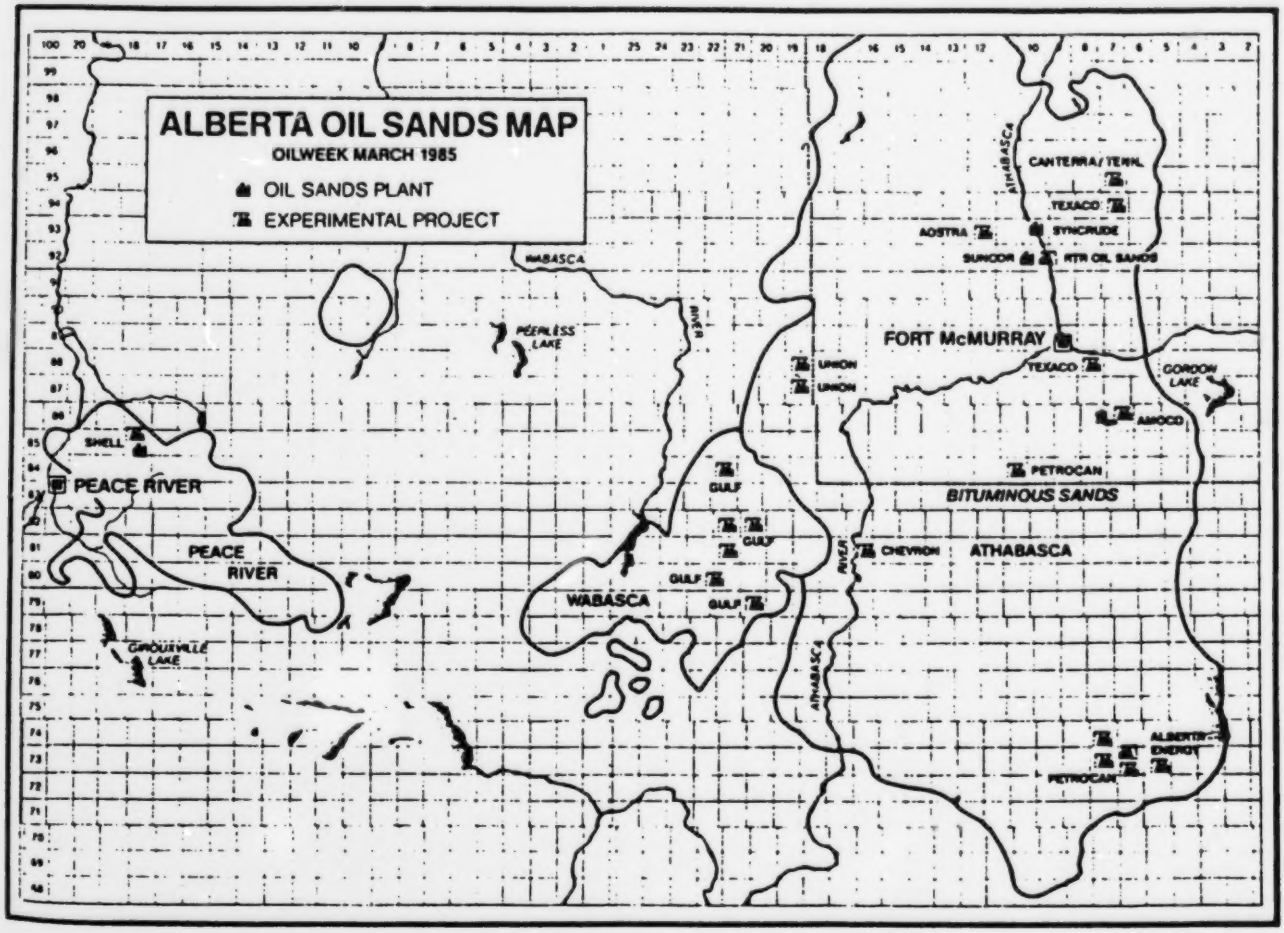
* Alberta Report. Heavy Oil Special, November 18, 1985.


ALBERTA OIL SANDS MAP
OILWEEK MARCH 1985
OIL SANDS PLANT
EXPERIMENTAL PROJECT
WABASCA
PEERLESS LAKE
SHELL
PEACE RIVER
PEACE RIVER
GROUARD LAKE
WABASCA
GULF
GULF
GULF
GULF
UNION
UNION
FORT McMURRAY
TEXACO
GORDON LAKE
AMOCO
PETROCAN
BITUMINOUS SANDS
CHEVRON
ATHABASCA
CANTERRA/ TENN.
TEXACO
AOSTRA
SYNCRUDE
SUNCOR
RTR OIL SANDS
ALBERTA ENERGY
PETROCAN

1. HIGH LEVEL

High Level, at the junction of the Mackenzie Highway, the railroad and Highway 58, is a natural service centre. It is the centre of economic development in northwest Alberta, servicing the oil communities of Rainbow Lake to the west, Zama to the northwest and the agricultural communities of Fort Vermilion and La Crete to the east. The trading area population exceeds 14,000. High Level's three grain elevators are the most northerly in the world.

High Level's relatively remote location results in the localization of many goods and services which would normally only occur in a larger centre.* The area is supported by a diversified economy that includes energy developments, forestry, agriculture and a strong government service base. Importantly, the region has a young, aggressive and enterprising population. Certainly, this area does not appropriately fall under any blanket policies that have been defined for the province, or the country as a whole, with regard to mortgage insurance.

The vacancy rate for rental accommodation in High Level is essentially zero, and it has been for more than five years. High Level had a total of 51 apartment units in 1980, with a population of 2000. In 1985, the population is approximately 2800 and the number of apartment units stands at 153. The community has two spec home building contractors operating at this time, however, no realtors are currently domiciled in High Level. Realtors commute in from Peace River on an as required basis.

The first CMHC insured mortgage in High Level was secured 14 years ago on a new house. At that time, the approval phase took seven months and the local bank declined to get involved in the process because of the paperwork. The rumors that resulted in the market place as a result of this first policy, set CMHC back a number of years.

Another government agency, Alberta Housing Corporation, introduced 199 residential lots to the local market in 1980. There are approximately 150 left. The intent of AHC's Residential Land Program is to market a sufficient supply of serviced lots to keep the price of those lots at an affordable

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* Economic Development Opportunities in Northern Alberta, Overview Report, NADC, September, 1985.

level, particularly for middle and low income families. In fact, with preferred financing packages of up to 3%, and the chance to finance up to 85% of the lot value (versus a maximum of 70% on private lot sales), AHC is providing unfair competition for the private sector. New building lots in High Level are in the $17,000 to $19,000 range.

Extremely viable local and non-resident building contractors, with enviable reputations for quality and reliability, are prepared to build both rental and single family-owned spec accommodation in High Level. However, these firms are experiencing excessive demands from the local chartered banks, regarding terms for financing. These builders are convinced that the local chartered banks have determined that they are not in the mortgage business in northwest Alberta. Some mortgage companies, for instance London Life, Royal Trust, Sun Life and Northwest Trust have indicated that they are not interested in lending beyond the fringes of the major cities. In High Level, there has been a virtual exodus of building contractors to the highly competitive and to some extent, lone mortgage lender, the Treasury Branch.

2. HIGH PRAIRIE

High Prairie is the recognized agricultural service centre for its region at the west end of Lesser Slave Lake.* Because of its geographical location, High Prairie is well-positioned to benefit from tourism development, some oil and gas servicing, dimension lumber production and service to neighbouring Indian reserves and Metis settlements.

High Prairie is not experiencing the same scale of pressure for growth as are High Level, Grand Centre and other areas of the north. However, the community is enjoying a steady growth rate of approximately 3% per annum, and its prospects for economic growth in the future are strong. High Prairie is attempting to capture a share of the spin-off business from oil and gas development at Red Earth. The community is also seeking economic development in the forest service/products area.

The community of High Prairie is the established agricultural service centre for the region. A good mix of wage and agriculturally based family income has produced a stable economy

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* Economic Development Opportunities in Northern Alberta, Overview Report, NADC September, 1985.

in the region. High Prairie's population was 2800 in 1984, with a trading area of approximately 12,000 people.

High Prairie currently has a low vacancy rate in rental accommodations. An expansion of the existing rental apartment and/or townhouse stock appears to be in order. This opportunity is constrained by a general lack of investor confidence, high rental rates (which are indicative of low vacancy rates), an apparent unwillingness of CMHC to guarantee loans outside of major metropolitan centres,* and a reluctance of local lenders to participate in real estate ventures. In addition, current road construction and oil and gas activity are at a peak in the High Prairie region, as a result, additional hotel, motel and restaurant facilities are in demand. Area demand for new single family dwellings is also high. One of the most frustrating situations for local builders is to attempt to sell a CMHC insured home to an AMHC insured buyer, or vice versa. Unfortunately, the criteria for the two insurers is so different that one's application data is not interchangeable with that of the other. This can lead to bureaucratic nightmares for vendors and purchasers, alike.

3. SLAVE LAKE

Slave Lake has developed as a service centre for resource development industries.** The community provides a range of basic oil and gas services, has several major industries involved in forestry, and provides regional provincial government services. The diversity of the economy has helped Slave Lake avoid many of the impacts of the recession.

The community of Slave Lake is growing as a centre of oil and gas servicing. The Red Earth region currently accounts for 1 out of every 4 drilling rigs working in Alberta, or about 100. Both the Red Earth and Wabasca/Desmarais area are very active at this time. Slave Lake is the principal supply/support centre for both areas because of its location, and its role as a transportation node. The community straddles Highway 2 and acts as the origin/terminus for Highway 67. In addition, Slave Lake is served by CN Rail and it has an adjacent municipal airport.

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* Economic Development Opportunities in Northern Alberta, Region Five, September 1985

** Economic Development Opportunities in Northern Alberta, Overview Report, NADC, September 1985

Slave Lake's economy is principally dependent upon non-renewable resources. The recent economic development opportunities workshop, conducted under the guidance of the NADC, uncovered local aspirations to diversify the economic base into such areas as forestry and tourism. It is also suggested that the community of Slave Lake attempt to establish stronger linkages between itself and the activities in Red Earth and Wabasca/Desmarais. However, Slave Lake will be the major local benefactor of these activities, regardless of any moves in this regard.

Slave Lake has been subject to somewhat of a "roller coaster" economy over the past few years, because of its dependence on the oil and gas and lumber industries. However, it has enjoyed a population growth rate of 6% over the past two years, to an estimated 4,838 people in 1984. Also, the renewed interest in the Wabasca oil sands should provide for steady growth over the next number of years. Slave Lake's wage-based, transient population makes investments in housing stock somewhat risky. However, the community's current zero vacancy rate and its overbooked hotels are indications of the demand for rental accommodation. It has been suggested that an apartment-hotel concept might help a developer to survive local cyclical accommodation requirements. Over and above the foregoing requirements, there is a demonstrated need for townhouses and single family dwellings in and around the Town of Slave Lake.

4. BONNYVILLE

Bonnyville grew 437 people in 1984, or 9.1%, for a total of 5,223. The town has an average growth rate over the last seven years of 7.8% per annum.* In Bonnyville, government employs 7.0% of the people. The five largest employers in Bonnyville are: oil and gas, 22.3%; construction, 13.3%; retail trade, 11.2%; business services, 8.6%; and, health and social services, 8.2%. Bonnyville witnessed the establishment of approximately 90 new businesses in the last year. Nobody wants to be heard saying it, but it is boom time again.

Local officials feel that the community's infrastructure is ready for a continued boom, with the exception of rental accommodation and more single family housing stock. An Edmonton firm, Di-Corp Operations, developer of Cold Lake's Nelson Heights residential subdivision, is planning to develop two sites in Bonnyville that

* Bonnyville Nouvelle, October 21, 1985.

would encompass a 250 mobile home park, between 50 and 150 single family residences, 200 apartment units and 100 townhouses. This is an example of one builder's estimation of his proposed contribution to meeting demand in Bonnyville.

Land turnover in Bonnyville is benefitting the town's coffers. To the end of October, 1985, Bonnyville had sold 33 town-owned lots, for some $66,000. Bonnyville estimates a budgetary surplus of $250,000 this year, which is good news for a town that professes one of Canada's highest per capita debts. Importantly, the town has committed 45% of land sales to a land development reserve.

Further evidence of growth in Bonnyville is offered by the announcement of a new Chrysler dealership (The Advantage, October 24, 1985), a 24-hour convenience store (Tri Town, November 14, 1985) and a gas bar. For a region where a hoped-for oil boom so recently went bust, it is a vital new transfusion. The more than 450 workers, now permanently based at the projects at Esso Resources Canada Ltd., and BP Canada Inc., and an increased number of military personnel at CFB Cold Lake, for Canada's new fighter aircraft program, are demanding houses faster than roads and new subdivisions can be built. The three towns of Bonnyville, Grand Centre and Cold Lake, where construction stood still for three years, estimate they will issue building permits for more than $40 million worth of construction this year.* New housing prices in the tri-town area average $90,000.

Many investors across Canada are shying away from the area, fearing a repeat of the boom-to-bust cycle. The key to any proposed development for the area is, of course, financing. However, to a great extent, Canada's investment community is not seeing what is happening in the Cold Lake region of northeast Alberta. Grand Centre and Cold Lake, in conjunction with the province, have spent more than $14 million to provide enough services for future growth to 30,000 people. The current population of the tri-towns is approximately 12,500. Both Esso and BP say their new projects will be phased in over several years. They claim that their gradual approach to development will produce thousands of jobs for much longer than the 25 year life of one project.

5. GRAND CENTRE

Grand Centre grew by 311 people last year, or 8.9%. The town's

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* Report on Business Magazine: "Will Bonnyville Boom Again?", November, 1985, The Globe and Mail

seven year average growth rate has been 2.9% per annum. Grand Centre, even with its high turnover of military families, has a core of 18.7% of its population that have lived there all their lives. This compares to 18.5% in Bonnyville. The largest single employer in Grand Centre is the government with 36.7%. This large total is accounted for by CFB Cold Lake. The next five major employers in Grand Centre are: oil and gas, 11.9%; construction, 9.1%; accommodation, food and beverage, 9.0%; and, retail trade, 8.4%.

Grand Centre is expecting new businesses in the form of Canada Safeway, a new four-screen theatre, and a regional recreational complex over the next year. Alberta Municipal Affairs recently completed a growth study in the tri-town area and they foresee growth to between 17,000 and 20,000 people by 1990.

In the multi-housing area, a total of 76 units were added in Grand Centre and Cold Lake this year, with 30 more coming on stream. Typically buildings are fully leased before they are finished. Local bank managers claim that they can't convince their head offices about what is happening in the area. It is probably particularly difficult with reference to northeast Alberta. Many middle and upper management "heads" rolled from chartered banks during the downturn in the economy. Many of these bankers will place the blame for their misfortunes on this area of Alberta. The boom is localized and many head office bankers don't see it. To make things more difficult, many don't want to see it. In addition, CMHC has not underwritten any rental property in Grand Centre in 1985.

There is a crisis in the rental and housing market in Grand Centre - Cold Lake. Because many of the buyers in the area are manager-professionals in the oil patch, they are demanding more expensive housing. Quite obviously, Department of National Defence personnel cannot compete in this market place with this income group. In response to this problem, the Department of National Defense has made a commitment to build 100 condominiums in Cold Lake, that will be available to the military on a rent-back basis. This will loosen up the market somewhat.

House prices in Grand Centre are now as high as they have ever been. They are at the highly speculative and inflated 1981 levels. However, the shortage of housing stock has a great deal to do with this situation. Esso Resources is implementing a 16 phase project. The ERCB recently approved phases 7, 8 and 9. Phases 1 to 6 are complete. All 16 phases would give Esso a

project equivalent to the original proposed mega-project. That translates into long term steady growth. In addition, Suncor, B.P., and Dome are active in the area.

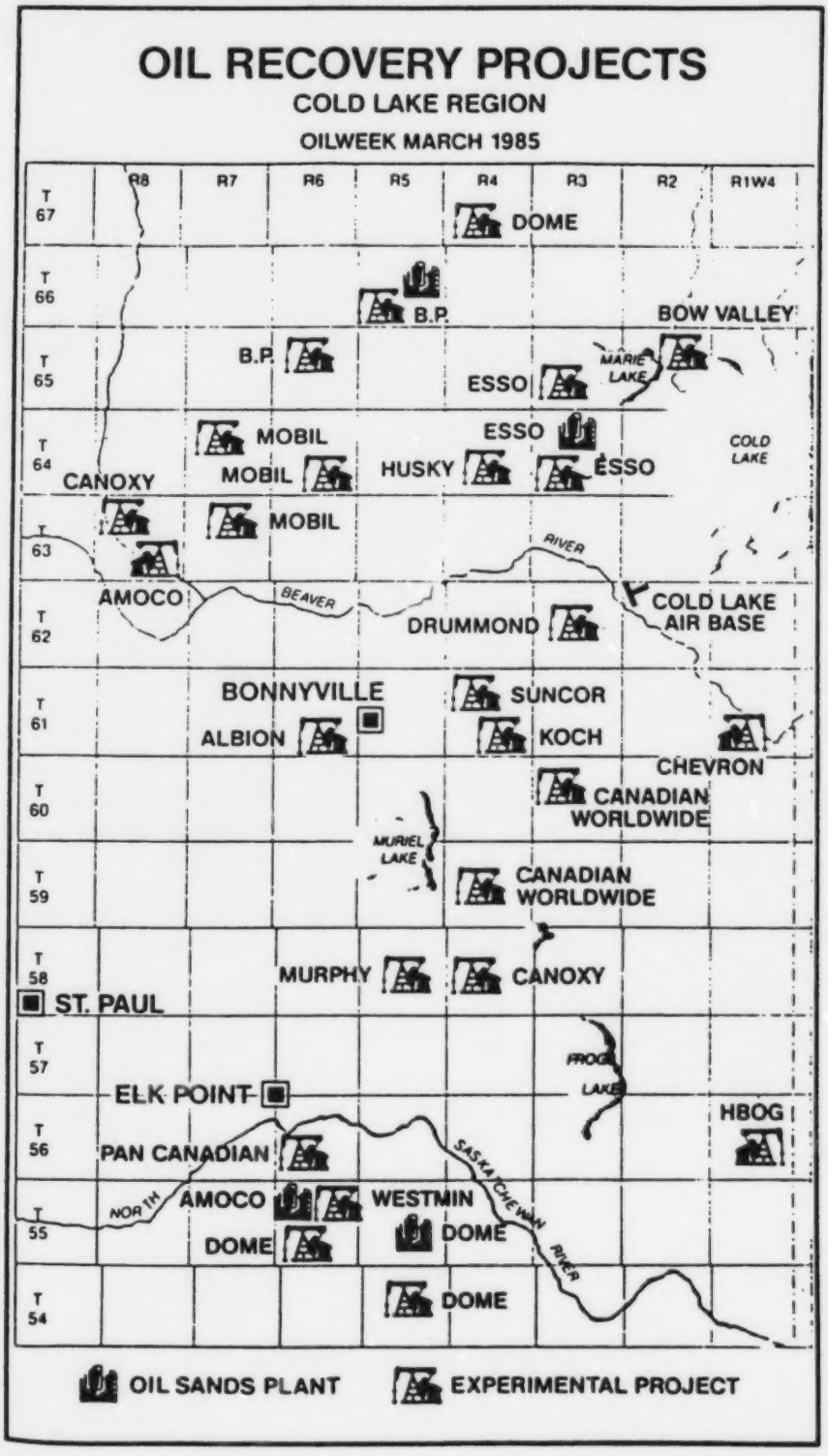
6. COLD LAKE

Cold Lake and Grand Centre can be, and often are treated as one unit. Thus, some of the statistics provided under the previous section on Grand Centre, include Cold Lake. The two are separated by a 6 mile stretch of highway.

Cold Lake grew by 290 people in 1984, or 11.5% to 2,805. The average annual growth rate over the past six years in Cold Lake has been 7.2%. Some 25.4% of Cold Lake's population has lived there all their lives. The largest single employer in Cold Lake is the government, with 29.8% of the labor force, employed at CFB Cold Lake. The top five following the government are: oil and gas, 18.6%; construction, 8.9%; business services, 7.5%; and, education and health services tied at 7.1% each.

George Ward, president of North Eastern Drilling Ltd., the area's largest drilling rig contracting firm, says the existing 150 to 200 local jobs in the well servicing and drilling industry, will grow at least five-fold over the next 10 years. Mr. Ward, who has been in the oil field service business since 1943, and who has owned his own drilling rig business since 1950, says the growth now occurring in the area's oilfield service business "is just the tip of the iceberg". Esso alone plans to drill 2200 wells over the next four-phased expansion of its project. One service rig will be required for every 75 wells drilled. Each service rig created about 22 jobs. Thus, many new permanent jobs will be created in just the example given here.

The Esso Resources Ltd., Cold Lake Project will become the company's largest industrial plant in Canada by 1988, following the four-phase expansion that has just been approved. More than 1,000 people will work on the Esso project alone. The project currently employs about 650 people (400 with Esso and 250 under contract from oilfield service firms). Esso says the cost of producing the first 10 phases will be $1 billion, and that over the life of the project, another $5 billion will be spent on replacement wells and field facilities. Interestingly, Esso's project is costing far less than originally estimated, but it is creating more spin-off oilfield service jobs than it had once anticipated. As a result, the net employment impact of the company's current Cold Lake development and new project plans


OIL RECOVERY PROJECTS
COLD LAKE REGION
OILWEEK MARCH 1985
R8
R7
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T 67
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BOW VALLEY
MARIE LAKE
ESSO
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HUSKY
ESSO
COLD LAKE
CANOXY
MOBIL
RIVER
AMOCO
BEAVER
DRUMMOND
COLD LAKE AIR BASE
BONNYVILLE
ALBION
SUNCOR
KOCH
CHEVRON
CANADIAN WORLDWIDE
MURIEL LAKE
CANADIAN WORLDWIDE
MURPHY
CANOXY
ST. PAUL
FROG LAKE
ELK POINT
HBOG
PAN CANADIAN
NORTH SASKATCHEWAN RIVER
AMOCO
WESTMIN
DOME
DOME
DOME
OIL SANDS PLANT
EXPERIMENTAL PROJECT

will be a total of 970 full-time, ongoing positions. Mayor Warren Johnston of Cold Lake is pleased with the conservative pace that he has witnessed over the past two years. He says: "we haven't had the cataclysmic effects of the boom."

Cold Lake is the home of the legendary Kinosoo, the Big Fish. It has the diversification that will guarantee its success. Cold Lake has the stability of a military base, the dynamics of oil sands development, and a long term future in tourism. Eighty new houses have been constructed in Cold Lake in 1985, bringing the building permit value in the town to in excess of $16 million. In 1984, building permits topped $24 million (which included an $18 million hospital complex). Grand Centre's building permit totals have already exceeded those for all of 1984. In 1984, a total of $3,282,000 worth of building permits were issued, versus $4.76 million; to the end of October, this year.

The sales of newly developed lots in Cold Lake's Nelson Heights area have gone so well that its owner, Di-Corp Operations Ltd., of Edmonton, will service another 50 lots early in the new year, with a further 100 to be developed shortly afterward. At least 10 new houses will be under construction in Nelson Heights over this winter, with a surge of new construction slated for the spring. Another builder, Kohlruss Bros. of Lloydminster, has built between 30 and 40 new single family dwellings in Cold Lake this year. These strong, positive growth rates are expected to continue.

7. ELK POINT

Elk Point picked up 95 people last year, for a growth rate of 8.5%, and a total population of 1008. Elk Point's seven year average growth rate is 3.3%, however, it is accelerating rapidly now.

The Lindbergh Field is the centre of oil activity in the Elk Point case. As of November, 1984, there were 700 producing oil wells in the Lindbergh oil field. There are four main companies operating in the Lindbergh field: Dome, Westmin, Amoco and Pan Canadian. Elk Point is the service supply base for these companies operating in the Lindbergh field. As a result, oil company employees are buying homes in Elk Point. However, Westmin and Dome have built their offices in the county, while demanding that Elk Point provide them with housing. Elk Point's Mayor, Ed Buck is worried about the consequences of this situation. The County's actual growth rate, and increased

commercial/industrial tax base is higher than that of Elk Point. The mayor feels that a tax-sharing formula needs to be developed to help support the necessary infrastructure growth in impacted towns, like Elk Point. He suggests that this could take the form of a per capita transfer payment, based on the number of people that live in the town, but work in the county. Some 30.1% of Elk Point's labor force is employed by the oil patch.

Elk Point has added a myriad of houses over the past year, as well as two new apartment blocks and a new motel. Elk Point originally developed as an agricultural service centre and as the dormitory for employees of the Lindbergh salt mine. The Canadian Salt Company operates the Windsor Salt Plant (established in 1948), 17 miles east of Elk Point, and employs 60 to 80 people. Elk Point serves as a regional service centre for a stable population base of some 3000 people.

Elk Point is concerned about its ability to take full advantage of servicing the growing oil activity in the Lindbergh field versus such centres as Bonnyville and Lloydminster. At the same time, it is experiencing some pressure for growth of its housing and rental accommodation stock. The community must attempt to balance its future growth with commercial/industrial development, as much as is possible.

The housing mix in Elk Point favours single-family, detached dwellings, although the share of single attached dwellings (apartments, duplexes, etc.) has recently increased. Nonetheless, there is a significantly high proportion of single detached homes in the town relative to the provincial average (77% in Elk Point versus 62% in Alberta).* Not surprisingly, a private builder is applying to build two large apartment complexes. Almost half of the private dwellings in Elk Point were built between 1971 and 1981, the high growth period. In the decade prior to that, only 6% of Elk Point's total housing stock was built. Of course, that decade had a local growth rate of 0.5%. Further, about two-thirds of all local accommodation is owned, one-third rented. This relationship generally corresponds to that for the province. Between 1971 and 1981, an average of 17 new private dwellings were added to the town each year. The total housing stock reached 474 units in 1984. Less expensive housing, including both single family dwellings and rental accommodation, is in demand.

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* Elk Point and District Community Impact Study, Nichols Applied Management, January 1985.

6.0 AN ANALYSIS OF MORTGAGE INSURANCE DELIVERY TRENDS IN NORTHERN ALBERTA

6.1 Mortgage Insurance Participants and General Requirements

Five principal actors perform on the mortgage insurance stage:

1. The Purchaser
2. The Developer/Building Contractor
3. The Realtor
4. The Lender
5. The Insurer

In northern Alberta, CMHC is currently the only insurer available for most mortgage insurance purposes. The Alberta Mortgage and Housing Corporation does some underwriting on high-risk, low income, subsidized housing.

When mortgage insurance is granted, the lender is insured for up to 90% of the appraised value of the subject building, for which the mortgage was granted. This should not be confused with another form of mortgage insurance, in which the mortgagee secures term life insurance on his/her life, equivalent to and declining with the outstanding mortgage on his/her house. Of course, the lender's decision is based on the potential mortgagee satisfying certain credit requirements. However, the mortgagee is really only a minor role player in the mortgage insurance delivery equation:

A minimum number of documents are required for approval of processing of NHA insured mortgage loans:

DOCUMENTS REQUIRED FOR NEW HOUSING

The lender provides CMHC with:

- One set of plans
- Underwriting fee [Appendix IV]
- CMHC Form 530, Undertaking-to-Insure
- Full premium at time of first mortgage advance or 90 days from date of the CMHC 530.
- Appraisal (optional) [Appendix V]

DOCUMENTS REQUIRED FOR EXISTING HOUSING

The borrower provides the lender with:

- MLS Listing (or recent photo of property)
- Photocopy of signed Offer to Purchase
- Underwriting Fee
- If applicable, list of intended property improvements

The lender then provides CMHC with:

- The above documents, and
- Appraisal (optional)
- Full premium (at time of the first mortgage advance)
- CMHC Form 530, Undertaking-to-Insure

6.2 The Delivery of Mortgage Insurance in Northern Alberta

The delivery of a decision on a request for mortgage insurance ultimately affects the would-be borrower. However, three participants in the mortgage insurance application activity, the realtor, builder and lender, are usually major role players in the process. In growth areas, building contractors will quite often be in a position where they would like to build some speculative housing. In order to raise the necessary financial backing for such an undertaking, lenders will often demand mortgage insurance. Similarly, realtors often have deals pending, subject to financing. These "subject to's", are often dependent on a favourable decision regarding mortgage insurance. Finally, the lender may be willing to lend money for the purposes of a mortgage to a borrower, but that final approval is dependent on a successful application for mortgage insurance. Thus, the builder, realtor and lender are quite often in a position where they require mortgage insurance underwriting, in order to carry on their business activities.

How does the delivery of mortgage insurance affect the key players in the housing market in Northern Alberta? The consultants put that question, and other related questions, to builders, realtors, lenders and community officials, in the seven subject communities in northern Alberta. The following responses represent a cross-section of views from members of the aforementioned groups. They were gathered through a variety of personal face-to-face and telephone interviews conducted in High Level, High Prairie, Slave Lake, Bonnyville, Grand Centre, Cold Lake and Elk Point, in November, 1985. They have been selected

not necessarily because they are right or wrong, accurate or inaccurate; but rather they are provided as a part of this background study because they provide a description of people's perceptions of a service, that is required in northern Alberta. When all is said and done, these perceptions govern the level of success or failure of a program in northern communities. General acceptance by northerners, and more importantly, by a northerner's respected neighbour, dictates the bottom line of success or failure for a program like CMHC's mortgage insurance in northern communities.

A sample of interview responses:

- "Up until six months ago, CMHC was of the opinion that new housing was not needed in this area (northeast Alberta)"
- "Nobody is building blue collar housing in the Tri-town area, CMHC won't touch it"
- The banks are reluctant to lend in this area (northeast Alberta)"
- "The fact that CMHC does not have an office in the north tends to make them less sensitive to what is happening here"
- "CMHC is not bad on the existing housing stock, but on new stuff, their turn around is too slow"
- "The Treasury Branch, with open mortgages, competitive rates and aggressive posture ... its the place I send my clients ... no mortgage insurance required"
- Our town engineer is reluctant to do CMHC interim appraisals because of the liability"
- "The Rural and Native Housing Program is not available in Bonnyville because our population was greater than 2000 people in 1971 ... that hurts"
- "Don't quote me but the CMHC inspector's that I have had to deal with have the collective personality of a gum wrapper"
- "It has taken up to 9 weeks to get CMHC approval on a new home here"
- "CMHC is understaffed and over governed"
- "Why should we insure a bunch of stuff in Bonnyville when we have a bunch of empty units in Calgary?"

- "Apartment buildings have to be 90% complete and 95% occupied before CMHC will insure them ... therefore, builders have to keep looking for interim financing ... what really happens is the sub trades are financing the builders"

- "CMHC told me that they are not interested in insuring financing in Bonnyville because they feel that when housing becomes available in Grand Centre and Cold Lake, the people in Bonnyville will move there ... historically, we've always got 50% of the growth in the tri town area"

- "They (CMHC) are charging an arm and a leg for premiums these days ... up front too"

- "MICC used to do a lot in this area ... maybe 2 to 1 versus CMHC ... up until about 1981"

- "CMHC approved a project for me ... but the delay in writing it up was three months ... in that time it cost me 2.5% interest, because rates were rising so fast at that time"

- "CMHC has shown no confidence in Bonnyville"

- "I influence my clients to go to Treasury Branch"

- "If a guy can possibly come up with 20% down, I push him to Treasury Branch"

- "The slowest moving product here is the cheaper new home ... cheaper used homes sell like hot cakes ... but CMHC won't insure the new ones until they are one year old ... therefore we can't move them ... the market for low end new homes is the first time home buyer ... the guy with 10% down and a need for CMHC"

- "CMHC told me they don't want to talk to realtors"

- "He is financing his project internally ... it means a potential buyer can't go to CMHC because he didn't hook up with them from the outset ... he doesn't have a mortgage you can assume"

- "The average buyer in this town has 2 days to buy a house ... he also wants possession a week later ... he doesn't have time for CMHC"

- "I'll probably lose two deals this week because I've got anxious buyers who won't wait any longer for CMHC approval"

- "Vendors now have a tendency to want more money if CMHC is involved ... because of the limbo situation for 6 to 8 weeks."
- "As a builder, I don't want to finance with CMHC, but I want my buildings to be eligible for CMHC insurance for buyers."
- "Builders are at least 50% to blame for the problems with CMHC ... they won't find out exactly what is required"
- "Communication is the big problem ... and builders have not taken a responsible approach to finding out what CMHC requires"
- "The Town Engineer is not prepared to look at homes for our bank ... he is worried about liability ... but inspection is a big part of his job"
- "CMHC charges a one time fee for all 3 inspections ... builders would have to pay for every visit by a local inspector"
- "CMHC bulletins and manual are ambiguous"
- "Realtors are impatient ... offers to purchase inevitably have a closing time that is too short"
- "Builders, realtors, bankers and purchasers are all phoning CMHC to find out the stage of their applications ... this harassment leads to a negative situation"
- "Banks must give CMHC complete packages ... incomplete packages hold up results"
- "Our boom and bust reputation hurts us"
- "March 28, 1985 ... CMHC holds a very well advertised open house in Bonnyville in an attempt to clear up some problems and do some positive PR ... guess what? ... there are no builders there and I'm the only banker ... I say CMHC is trying"
- "Its the nature of the people in this area ... they don't understand big, bureaucratic, slow systems ... with banks or government agencies ... I've dealt, here 20 years, what's the problem?"
- "We should get CMHC to define what an overheated market is and why it is negative"

- "Edmonton bankers are not aware of how strong growth is out here ... because Esso (as an example) is downplaying the boom ... because of last time"

- "Some charters won't do conventional mortgages in rural Alberta even with 25% down, without CMHC underwriting"

- "CMHC inspectors look at cosmetic things, instead of structural ... just what is there mandate?"

- "They (CMHC) introduce a new program ... telephone approvals ... but it is only available in metropolitan areas?"

- "The really rapid growth is in northern rural Alberta now ... what's wrong with northern Alberta ... why won't the banks do business here?"

- "We added 76 units in Grand Centre and Cold Lake this year ... 30 more are coming on stream now ... CMHC told us that only 40 units would be required in the three towns this year"

- "We have just as many problems with AMHC"

- "Our bank has not been involved in new construction in this area"

"CMHC has given us reasonable service ... we average 3 1/2 weeks turn around"

- "CMHC's policy changes hurt our bank ... these new premiums cost us a lot of customers ... they are now going to Treasury Branch"

- "The fact that the applicant's fee is not returned if an applicant is turned down shows the wrong attitude for a government agency"

- "CMHC is not operated as a business and they currently have no competition ... they operate as a government service, not as a business"

- "CMHC has manipulated the local market place ... cutting down on spec housing in an up market ... building costs go up ... prices go up."

- "CMHC has not underwritten any rental property in Grand Centre"

- "Banks are not aggressive enough here"

- "CMHC inspectors never give us advanced notice of their visits"
- "The paradox is that they (CMHC) will insure anything after it is one year old"
- "All they have to do is inspect ... builders will take the risks ... just inspect so that houses qualify for insured mortgages for buyers"
- "Esso will be here 50 to 70 years"
- "CMHC can't apply blanket rules in such a strong growth area"
- "Where has free enterprise gone ... CMHC is not free enterprise"
- "Real estate agents multiplied from 3 to 27, in 2 years in this town"
- "Everybody figures its (CMHC) government and that if you didn't have to deal with them, you wouldn't"
- "The local Bank of Nova Scotia manager got his mortgage at the Treasury Branch"
- "The new Native and Rural Housing Program won't attract many builders ... they can't provide land and buildings for under $68,000. and make money"
- "Builders have lots of delays ... they have to wait for approvals after each stage"
- "High Level is not a one industry town ... the oil and gas patch, agriculture and lumber make this a reliable steady growth centre ... they should look at each community independently, and rate them"
- "I had the first CMHC insured mortgage in this town ... fourteen years ago ... the bank wouldn't touch it because of the paper work"
- "The banks can't make a decision locally"
- "Treasury Branches register title and debentures themselves ... I just pay registration fees"
- "CMHC is not a problem, but they are slow"

- "AMHC and any other government developer should not be allowed to compete with us in the open market ... the only place for them is if nobody else wants to develop a particular project ... then, you have to question the viability"

- "High Level needs to attract people ... we are making it easier for people to come here and live ... our development agreement has become developer-oriented ... we don't put barriers up for newcomers ... we need an open door policy until the population reaches 5000 - 6000 people"

- "I wanted to build a house with a conventional mortgage and no mortgage insurance ... I had 60% equity ... the bank turned me down ... I went to the Treasury Branch"

- "A local resident appraiser would help us a great deal"

- "If it wasn't for CMHC, I wouldn't have been approved for the financing on my house"

There is a mortgage insurance delivery problem in northern Alberta. However, the blame cannot be placed neatly and completely at the feet of CMHC. The problems of delivery are exacerbated by all actors in the housing business, the remoteness of northern communities, an abysmal level of communication, the boom-bust syndrome, and so on. The problems of delivery can be summarized as follows:

1. CMHC has a staff of seven inspectors that have far too many responsibilities, stretched over far too big an area. This has caused strain on the job and it has resulted in generally poor relations with people in a "high-tension" business - borrowing money to develop property.

2. CMHC inspectors do not have "regularly scheduled" trips to any one area, and they are to be available, generally speaking, at a moments notice. In addition, their trips to specific destinations are rarely publicized in advance.

3. Working relationships between CMHC mortgage insurance staff and builders, in particular, can be characterized as poor. The same can be said for CMHC and many realtors, as well as a lesser proportion of lenders.

4. CMHC says "do it their way" (i.e., follow the required procedures), and they will cooperate. They claim that their

procedures are clearly described and that they are continually updating lenders, builders and realtors with the information.

5. In the high growth areas, builders want to build spec housing at the lower end of the price scale. CMHC has not been prepared to insure spec housing, except through a cumbersome system of one or two show homes per certified builder. These show homes must be held for a period of several months.

6. Builders are building houses for 2nd and 3rd time buyers, those that do not require mortgage insurance.

7. In order to get what they need, many builders must start over again with CMHC. Clean the slate and work towards a cooperative working relationship.

8. Northern Alberta's growth communities are widely scattered and a long way from CMHC's offices in Edmonton. As a result, these communities suffer from a common problem: services that are urban-based services, are rarely delivered in an adequate manner to northern communities. Their population and remote locations also do not contribute to an efficient delivery of services.

9. Northern Alberta's oil sands communities are suffering from a boom and bust syndrome, with both CMHC and the chartered banks. Many bankers remember their losses in Alberta's resource areas of a few years ago. In some cases, these same bankers are being asked to make new investment decisions about the same places. They are reluctant and slow to come around to the reality that is happening in many areas of the north today.

10. CMHC's new cost recovery rules are unfair and somewhat against the philosophy of the government helping in areas where they are needed most. The new premiums, that must be paid up front, or amortized with the mortgage, are inhibitive, and they are adversely affecting the wrong group - the first time home owner.

11. CMHC's average turn around time for a decision, in excess of three weeks, is far too long.

12. Realtors must better prepare their customers prior to sending them to financial institutions for mortgage applications. Similarly, financial institutions must better prepare their CMHC application kits.

13. Local accredited appraiser must be recognized and utilized by all concerned parties in the building industry.

14. CMHC's blanket policies must be more flexible to allow for variations in their rules and regulations where they are warranted by high demand, rapid growth areas.

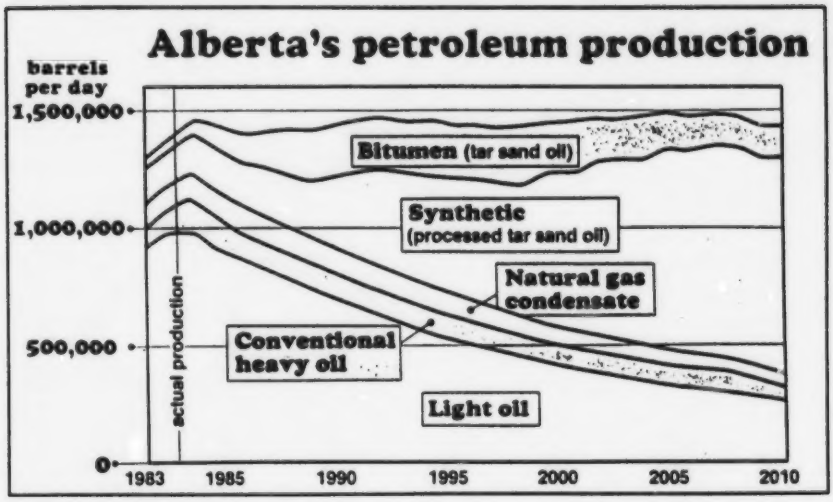
15. Northerners, and southerners, suffer to some extent from a "we-they" syndrome. Many southerners, in particular urban-based bankers and government program managers, do not understand the north well enough to make consistent decisions. More importantly, in many cases, their organizations have not facilitated any "northern experience" or education for these decision-makers. As a result, many isolated decisions, made in remote southern offices, can adversely affect northerners. The pity of this situation is that these decision-makers are quite often unaware of the impact of their decisions. It takes an effort on both sides, but improved communication will go a long way towards alleviating problems of program delivery in the north, and educating both sides to the problems of the other guy.

7.0 AN ANALYSIS OF THE NEXT 3 - 5 YEARS

Next month, CMHC will entertain spec housing applications once again. All indications are that growth will be steady and long term in both northwest and northeast Alberta. However, some words of caution are necessary. A great deal of the activity that is occurring in the oil sands at this time, is construction activity. Although it is anticipated that this construction phase will last many years, the permanent jobs that remain after the necessary infrastructure is built, are but a portion of the number of jobs being created now. Hence, caution must be exercised and the right mix of permanent and short-term housing must be the target for the next several years of growth. This time, the growth looks to be well-based and long term, but the susceptibility of this industry to world economics and politics, classifies it as a still-risky business.

What will happen over the next 3 - 5 years. First, it is anticipated that growth rates will continue in the 7 to 10% range in High Level, Bonnyville, Grand Centre, Cold Lake and Elk Point. Similarly, growth rates in High Prairie and Slave Lake will continue to be steady and above the provincial average. Secondly, development of heavy oil will gain momentum. Development of the four major oil sands deposits in Alberta, covering an area in excess of 2.4 million hectares, in the Athabasca, Wabasca, Peace River and Cold Lake regions, will continue to become the dominant source of oil activity in the province. Thirdly, housing prices in these growth areas will continue to rise, because of the demand, but they will level off during the period. Canada's largest real estate company, Royal Le Page Ltd., says that "although a healthy demand for homes exists, selling prices across Canada are only expected to experience a marginal average increase of just under 4%". In northern Alberta, with high demand and a slowly responding housing sector, these price increases will be higher in the short term. Another factor that determines housing demand is currently positive. Mortgage rates have remained essentially constant over the past several months.

Canada's oil and gas industry goes against the trend. Falling prices for crude oil and natural gas are expected to drive oil companies to slash exploration budgets in 1986, by up to 10%. But the situation in Canada is unique. As the Canadian oil industry reaps the benefits of lower taxes and less regulation, exploration in Alberta is surging, even though it is trailing off on the Canadian frontiers. Gerry Henderson, President of Chevron Canada Resources Ltd., says the Canadian oil and gas industry is on the verge of "an unprecedented growth cycle".



The ERCB says Alberta's current 945,000 barrel-per-day (bpd) light oil production will plunge to 699,000 bpd by 1990. By 1995, light oil production is predicted to be cut nearly in half to 529,000 bpd. However, Alberta's vast heavy oil reserves are expected to fill in the production shortfall - and maintain economic activity. Still, this optimistic view (chart above) assumes that enormously expensive oil sands production can be developed and put through much costlier refining processes while a world oil glut is pushing prices downward. Nevertheless, the ERCB is confidently predicting steady growth for this sector.

What will happen to CMHC's market stance over the next 3 - 5 years? Of course, their major decisions will be made in a political arena in Ottawa, far removed from northern Alberta. In addition, CMHC's managers will be pulled by the overall trends dictated by the Canadian economy, and by what happens in the housing markets of the country's largest cities. This is a fact of life. It is hoped however, that CMHC will be able to derive enough flexibility to be able to cater to demands that are different from the national average, as is anticipated in northern Alberta's oil sands regions over the next 10 years.

CMHC is forecasting that the 1980's will be marked by a diminishing overall requirement for new housing with starts dropping to an anticipated annual level of around 165,000 by 1989 - about 100,000 fewer units than were started in the peak production year 1976. The decline may be concentrated almost entirely in the rental housing sector where starts could drop to a quarter of their current numbers.

The reduced activity will reflect a number of significant demographic factors. Some moderation in demand will stem from an expected

population growth rate of about 1% per year during the period. Changes in the age structure of the population will be even more significant. They will tend to sustain the demand for homeownership housing, and sharply reduce the rental accommodation requirement. Historically, more than 70% of Canadians, between 35 and 44 years of age, have become homeowners. During the 1980's, this segment of the population will grow by an estimated 1.2 million, of whom 810,000 may move from rental accommodation to home ownership. Based on past mobility trends, another 2.2 million can be expected to purchase their second or third house.

By 1989, however, there will be some 971,000 fewer Canadians under 25 years of age, a section of the population whose limited savings and desire for mobility have made it a major demand source for rental accommodation over the years. To some extent, their reduced requirements will be offset by an estimated growth of 603,000 in the number of senior citizens, many of whom will seek the lower cost, extra services and maintenance - free advantages of rental housing.

The foregoing refers to the national scene. But, Alberta's north cannot be isolated from this scene. It is important for decision-makers in the north to understand these population dynamics, because they will affect agencies like CMHC. Importantly, CMHC will focus future programs on these and other major housing considerations. In northern Alberta, CMHC is the only mortgage insurance game in town. In the next 3 - 5 years, it is expected that they will continue as the lone source of this service. Thus, it is important to know what is behind their major policy decisions. Only by doing this, will northerners be able to address their own needs with CMHC, on their turf. CMHC will be needed in northern Alberta. MICC has indicated that all rural areas have too much risk for them. Thus, a government backed service is the only answer. It is strongly urged, as a result, that Alberta's building industry and CMHC's management and staff, take steps to improve communications and their understanding of each other's positions.

APPENDIX I

Excerpts from CMHC's Loan Insurance Handbook

1.1 THE CONCEPT

Until 1980 new construction loans had to be applied for, committed and insured before construction commenced or at least while it was at a very early stage.

While some exceptions to that rule are now permitted, new construction loans continue to involve monitoring compliance inspections by CMHC, progressive disbursement of the loan by the lender in the form of insured advances and, on completion and sale, if applicable, final disbursement of advances and endorsement of the Mortgage Loan Insurance Policy by CMHC.

1.2 HOUSING STANDARDS

New construction financed under NHA must meet the standards of construction prescribed from time to time in Residential Standards, and, where applicable, the National Building Code of Canada, with supplements, or municipal requirements where these are more demanding. Changes in Standards will be brought to the attention of lenders by Advice as they occur.

1.3 PROJECT ELIGIBILITY (STANDARDS)

In order to distinguish between "New" construction loans i.e. those to which new construction standards and policies apply, and "Existing" loans to which existing housing Standards and policies apply, "New" and "Existing" are determined in accordance with the following:

CONSTRUCTION STAGE AS AT REQUEST FOR UTI

NEW CONSTRUCTION	EXISTING HOUSING
- construction not started;	All occupied or previously occupied housing except as noted by *
- under construction;	
- completed but never occupied;	
* - completed and occupied for 12 months or less in jurisdictions which do not enforce the National Building Code or equivalent.	

NB. - For rental projects, occupancy implies 80% of units or more.

NOTES:

1.4 PROJECT ELIGIBILITY (CONSTRUCTION STAGE)

If, when loan insurance is requested, work on a "New" construction project has already commenced, the eligibility of the project for NHA insurance will depend upon whether or not compliance with Residential Standards of the work in place can be ensured or assumed. If neither, the project loan will not be insured.

1.5 VERIFICATION OF COMPLIANCE THROUGH INSPECTION BY CMHC/OTHERS

Standard compliance can be ensured if:

- In the case of houses, any work beyond the first floor stage is left open to permit normal compliance inspections.

- For houses or for larger projects, the developer had pre-arranged one of the following alternatives:

- CMHC PRE-APPLICATION INSPECTIONS - Inspections requested by the proponent and carried out by CMHC at appropriate intervals on a project for which no Undertaking-to-Insure has yet been issued.

  Details of fees and request procedures may be obtained from CMHC Branches. Provided the reports are satisfactory, copies of these inspection reports submitted with the request for UTI would serve as acceptable evidence that work in place at the time of the request meets CMHC requirements.

- INSPECTIONS BY NON-CMHC PROFESSIONALS - The reports of a registered architectural consultant or professional engineer may be accepted as satisfactory evidence of compliance with CMHC requirements if:

- the professional, in advance of having carried out the inspection, has satisfied CMHC that he has adequate skills in the field for which the inspection is being undertaken and is fully familiar with CMHC requirements, in the areas of standards, inspection stages and frequency;

- he maintains at all times an arm's length relationship (neither an owner, partner nor employee) with the proponent; and

- he certifies, in a form satisfactory to the Corporation, that the Corporation's requirements have been met.

NOTES:

1.5.1 **PROCEDURES** - Where inspections by CMHC inspectors or by non-CMHC professionals are contemplated prior to issue of an Undertaking-to-Insure, agreement to the proposal must be obtained from CMHC before construction is started (or, in the case of a house, before construction has gone beyond the sub-floor stage).

A builder may arrange for pre-application inspections before completing his loan arrangements through a written request to the branch. These inspections are subject to a fee. (CMHC branches will advise the fee amount and how it is to be collected.) Such inspections in no way commit CMHC to making or insuring an NHA loan.

CMHC inspections performed under this arrangement are reported on regular CMHC inspection forms and marked "pre-UTI" in a conspicuous manner.

A builder wishing to use non-CMHC professionals must seek CMHC acceptance of the proposed designated consultant(s) in advance of a construction start utilizing CMHC Form 2010.

1.6 **ASSUMED COMPLIANCE THROUGH MUNICIPAL INSPECTION**

Standards compliance may be assumed to have been achieved for certain smaller projects* located in jurisdictions where standards equivalent to the National Building Code are being properly enforced by the municipality and where CMHC is satisfied with the quality of construction evidenced by an inspection at the application stage.

1.7 **PLANS EXAMINATION WAIVER**

For Buildings of - not more than 6 units;
- up to and including 3 storeys in height;
- gross area not exceeding 600 m^2

CMHC will waive the normal plans examination requirement if satisfied that the municipality is enforcing standards the same as or equivalent to the National Building Code and is completing proper plans reviews.

No waiver is available on units subject to the provisions of the National Flood Damage Reduction Program.

1.8 **PLANS EXAMINATION SERVICES**

In circumstances where a waiver would normally apply but a plans examination is specifically requested by the loan applicant, this service will be provided. CMHC reserves the right to levy an appropriate service charge.

* See Graphic following.

NOTES:

- Where the vendor knows absolutely that the property does not contain the insulation

  "The vendor warrants that the building does not contain urea formaldehyde foam insulation".

- Where UFFI has been removed from the dwelling

  "The vendor warrants that, although UFFI has been installed in the dwelling, such UFFI was removed in (date) , by (name of contractor who carried out removal work) , and the vendor further warrants that, to the best of his knowledge, no UFFI has been installed in the dwelling since such removal. As evidence of the removal, the vendor attaches hereto the following documents:"

- Where testing has been carried out to determine the presence of UFFI and such testing proved negative

  "This clause applies only to UFFI and does not, in any way, include the testing of urea formaldehyde emissions from sources other than UFFI. The vendor acknowledges that the dwelling was tested for the presence of UFFI in (date) ,by (name of testing contractor) , the results of such testing indicating that no UFFI was present in the dwelling, and on the basis of such results the vendor warrants that, to the best of his knowledge, there is now no UFFI. As evidence of such testing, the vendor attaches hereto the following documents:"

- Where the property has UFFI and the owner has carried out remedial work

  "The vendor warrants that the dwelling was insulated with urea formaldehyde foam insulation but has undergone the following corrective measures:"

- Where testing for UFFI has been carried out, the results are positive, but urea formaldehyde emission is below the acceptable level

  "The vendor acknowledges that the dwelling was tested for the presence of UFFI on (date) ,by (name of testing contractor) , the results of such testing indicated that urea formaldehyde emission from the insulation is below the acceptable level and no further actions have been taken.

NOTES:

7.4.4 MONITORING

CMHC will monitor the quality of all appraisals submitted. Unacceptable appraisals will be returned to the lender with a request for a revised appraisal. Should the revised appraisal still be unacceptable the lender will be requested to submit the additional fee required for full processing.

If the quality of appraisals completed by a particular appraiser and/or local office of a lender is found unacceptable and continues to be unacceptable after the lender has been so notified, CMHC will not accept additional appraisals from the appraiser or the lender's local office.

7.5 LOAN DISBURSEMENT

A loan involving no improvements would normally be processed as a completion loan with a single advance being made on completion of the sale or refinancing transaction.

A loan with improvements will be processed similarly to a new construction loan with the funds being disbursed in progress advances as the work proceeds and is inspected.

7.6 PROCEDURES

See appropriate CMHC Administrative Guide.

7.7 UFFI DISCLOSURE

No existing housing loan involving property acquisition will be insured unless the agreement of purchase and sale supporting the loan application includes one of the following declarations by the vendor relative to Urea Formaldehyde Foam Insulation:

- Where the vendor knows that the property contains UFFI

  "The vendor discloses that the building does contain urea formaldehyde foam insulation.

  Purchaser acknowledges that vendor has disclosed that the building contains urea formaldehyde foam insulation. Purchaser accepts the property in that state. Vendor does not warrant the quality or quantity of the insulation or its installation".

NOTES:

APPENDIX II

Names of People Interviewed

A. Face-to-Face

B. Telephone

PERSONAL INTERVIEWS

A - Face-to-Face

Ed Benoit
Manager
Value Master Construction Ltd.

Steve MacIntyre
MacIntyre & Associates
Insurance Brokers Ltd.

R.E. (Bob) Walter
Mayor
Town of High Level

G. (Gordon) Lundy
Municipal Administrator
Town of High Level

Doug Gramson
Manager
Northern Services (High Level) (1978) Ltd.

Don P. Grummett
Manager
Canadian Imperial Bank of Commerce
High Level

Mike B. Parkin
Branch Manager
Bank of Montreal
High Level

Larry Sylvestre
Aristocrat Realty Ltd.

Maurice Rivard
Aristocrat Realty Ltd.

Clermont Roy
President
Gen-Mec Construction Co. Ltd.

D.W. (Darryl) Holloway
Branch Manager
Bank of Montreal
Bonnyville

Paul A.J. Vallee
Vallee Real Estate

Mark Ross
J.C.F. Home Realty Ltd.

Dave Senecal
Century 21
Jayd Realty Ltd.

Lori E. Reykdal
Credit Assistant
Alberta Treasury Branch
Bonnyville

R.A. (Roger) George
Assistant Manager Personal Loans
The Toronto-Dominion Bank
Bonnyville

Daniel Johns
Editor
Bonnyville Nouvelle Ltd.

Terry Densmore
Community Affairs Advisor
Local Business Co-ordinator
Esso Resources Canada Limited

Don Appleby
Manager
Community Advisory Committee

Ken Drake
K.B. Drake & Associates Surveys Ltd.

William G. Blair
Assistant Manager Personal Loans
The Toronto-Dominion Bank
Grand Centre

Larry Melanchuk
Gerber Real Estate

Allan Sanregret
Manager
Century 21
Sancroft Realty Ltd.

Myron J. Goyan
Municipal Administrator
Town of Cold Lake

Don Ellis
K B L
Kohlruss Bros. Const. Ltd.

Mark L. Graham
Cold Lake Real Estate Ltd.

Larry Demchuk
Elk Point Insurance & Realty

Les Bessey
Grande Centre

Alvin Luger
Dun Rite Roofing

Jon Hemmingson
Jonco Construction Alberta Ltd.

Bill Balles
Century 21
Fort George Realty

Doug Willigar
Manager
Toronto Dominion Bank
Edmonton

Rick Cabana
Richmon Builders Ltd.

Jim Starcheski
Manager
Treasury Branch
Cold Lake

Robert Clark
Co-ordinator
N.W.R.E.D.C.

Bill Balcas
Century 21
Fort George Realty

Bill Bacon
Engineering Supervisor
Imperial Oil

Ray Hebert
Richmon Builders Ltd.

Tewfik Saleh
Superintendent of Insurance
for Alberta
Consumer & Corporate Affairs

Robert J. Edgar
Assistant to the Deputy Minister
Alberta Consumer & Corporate Affairs

Capt. Bob Chapman
Department of National Defence

Lieutenant Don Fezzel
Department of National Defence

David Edey
Director
Alberta Housing
Planning Secretariat

Gary Gordon
Manager
Alberta Housing
Planning Secretariat

Ronald P. Denboer
Planning Officer/Planning Branch
Municipal Affairs

Rory E.P. Campbell
Executive Director
Alberta Housing
Planning Secretariat

George Hilton
Branch Manager
The Mortgage Insurance Company of Canada

Laurie Scott
Housing Analyst
Canada Mortgage and Housing Corporation

W.F. Wywrot
Program Manager
Lending/Social Housing
Canada Mortgage and Housing Corporation

B - Telephone

Neil Gilliot
Slave Lake

Cynthia Buie
R.E.D.B.
High Prairie

Dennis Basurab
Basarab Construction

Lynn Michaels
Richwood Construction

Arnold Christensen
Slave Lake Realty

Ken John
Lakeview Realty

Norm Sware
Sware Realty

APPENDIX III

NHA Application Requirements

July 23, 1985

IMPORTANT NOTE: NHA APPLICATION REQUIREMENTS - SINGLE/SEMIS

EXISTING:

- CMHC 530 - Undertaking to Insure - fully completed and executed by Lender.
- Underwriting Fee as per Advice to Approved Lenders #23.
- If M.L.S., or, Real Estate Listing is not available, a recent photo is to be provided - the address, date and signature of the lender must appear on the photo and a written description of the house i.e. - type, lot size, approx. house size and age, # of bedrooms, heating source, special features such as fireplace, garage, completed basements, built-ins are to be noted.

  (The above will not be required where the fee appraisal report on form CMHC 2590 is provided.)
- As applicable, list of improvements/renovations with estimated cost by item. Structural work will require 2 sets of specifications and construction drawings in metric.
- If rural, location map.
- Copy of current fee appraisal, as applicable (should not be more than 30 days old), see Advice to Approved Lenders #23.
- Urea Formaldehyde Foam Insulation (UFFI) declaration required, executed by vendor, that warrants whether or not the property does or does not contain UFFI. See attached - applies in all cases with the exception of new construction and refinancing.
- Copy of the executed Offer to Purchase & Sale. If financing clause is applicable sufficient lead time should be negotiated. Expired offers are not to be submitted.
- Current water quality certificate, if on well.
- Current Certificate of Functionability of septic system, if applicable.
- For refinancing, include current mortgage statements with per diems and prepayment or other penalty charges - statements must be signed and dated by Mortgagee.
- Lender's recommendation if GDS is in excess of 32%.
- Survey Certificate if available.
- Name and telephone number of contact person for inspection purposes.

NEW:

- CMHC 530.

- Underwriting fees as per Advice to Approved Lenders #23.

- Two sets of complete construction drawings in metric which include:

  A) Plot plans with grade elevations, side yards and set backs.
  B) Heating plan with heat loss calculations.
  C) Elevations
  D) Truss design (stamped by engineers)
  E) Cross section
  F) Basement plan (if wood preserved, the plan is to be stamped by an engineer)
  G) Main Floor plan
  H) Cathedral ceilings - Contact CMHC for additional information
  I) Where reinforced concrete is used - Contact CMHC for additional requirements.

- If rural, septic system approval and installation certificates and water quality, quantity certificates will be required.

- Location map if rural.

- Agreement of Purchase and Sale for pre-sold units with attached addendum, listing extras, if applicable.

- Spec loans will not be accepted.

- Builder's New Home Certification registration number required.

- New Home Warranty Unit enrollment number will be required.

- If builder has not previously built NHA current financial statements of the builder will be required along with the assessment of the lender. The lender's comments are to relate to the proponents track record, credit references, credit report and line of credit.

- Lender's recommendation regarding G.D.S. if in excess of 32%.

ADVANCES:

Notice of Advances, CMHC 990, must be submitted to CMHC and attached to all Mortgage Insurance premium payments. The final interest rate must be shown on the 990's unless the CMHC 530 reflected a fixed rate. All premium payments will be returned where the 990 is not provided with the payment.

FEE APPRAISALS:

CMHC will consider appraisal reports submitted on CMHC's format, CMHC 2590. The appraisal report must be signed off by individuals with either a CRA or AACI designation.

LOANS RATIOS - HOMEOWNER

Other than acreage properties standard 90/80% loan ratios apply. Acreages will be restricted to a 75% to lending value ratio.

SINGLE RENTAL UNITS

- Minimum 5 year term
- CMHC 5308, Undertaking to Insure
- CMHC 1675, Application Rental
- Offers, Photos, Description of Property, Underwriting Fees, etc. See application requirements for existing.

REFINANCING

- Copy of the Certificate of Title will be required at the time of submission of the application package.

- Registered encumbrances will only be considered that are related to the housing unit.

- The lender is solely responsible for ensuring the discharge of the applicable registered encumbrances.

MORTGAGE INSURANCE PREMIUM

Refer to Advice to Approved Lenders #21.

INSPECTIONS

All requests for inspections, technical information and interpretation of inspection reports are to be directed to the Technical Services Department of Canada Mortgage and Housing Corporation's Edmonton Branch Office, 12315 Stony Plain Road, P.O. Box 1273, Tel. 482-3431.

IMPORTANT NOTE

Incomplete applications will be returned.

W. Wywrot
Program Manager
Lending & Social Housing

WW/sc

APPENDIX IV

CMHC Underwriting Fee Structure

Canada Mortgage and Housing Corporation

Société canadienne d'hypothèques et de logement

UNDERWRITING FEES

Underwriting fees for NHA mortgage insurance have been restructured to more accurately reflect current administrative costs. Reduced fees apply when the appraisal and progress advance examination(s) are provided by a qualified person on behalf of the lender.

The underwriting fee must be submitted to CMHC along with Request-Undertaking-to-Insure, CMHC 530.

The underwriting fee schedule, applicable to homeownership applications for mortgage loan insurance, is as follows:

FEE	HOMEOWNERSHIP – EXISTING HOUSING	DUPLEX
$100	When lender provides the appraisal* on the property. **An appraisal need not be submitted for owner-occupants when the loan-to-sales-price ratio is less than 80% in census metropolitan areas and the borrower's equity is $8,000 or more.*	$200
$250*	When lender does not provide an appraisal of the property to CMHC and a single advance is issued. **If progress examinations are made by CMHC, an additional fee of $100 is required.*	$350*
	HOMEOWNERSHIP – NEW HOUSING	
$150	When lender provides the appraisal of the property and recommends progress advance examinations.	$300
$350	When lender does not provide the appraisal and CMHC establishes the lending value.	$500

The underwriting fee schedule on rental projects is shown below for your information. Note: CMHC determines lending value for mortgage loan insurance purposes for rental units.

FEE	RENTAL – NEW HOUSING
$350	Per unit for the first 15 units.
$250	Per unit for each additional unit.
	RENTAL – EXISTING HOUSING
$350	For the first unit.
$250	Per unit for each additional unit.

FEE	RESALE OF PROPERTIES ACQUIRED BY CMHC AND SALES UNDER THE PROVISION OF THE DEFICIENCY CLAIM SETTLEMENT
$100	Homeownership Per unit regardless of the number of units.
$100	Rental Per unit.
$ 50	Per bed.
	CONDOMINIUM
$350	New Construction Per unit for the first 15 units.
$250	For each additional unit.
	Existing Same as regular existing units.
	OWNER-OCCUPIED EXISTING RENTAL – 3 TO 6 UNITS
$350	For the first unit.
$100	For each additional unit.
	HOSTELS AND NURSING HOMES
$ 50	Per bed regardless of the number of beds.
	SOCIAL HOUSING
$100	Per unit regardless of the number of units.
$ 50	Per bed for hostel type projects.
	REFINANCING THE OUTSTANDING BALANCE OF NHA INSURED LOAN
$100	Per unit for the first 15 units.
$ 25	Per unit for each additional unit.
$ 50	For Hostels and Nursing Homes Per bed for the first 15 beds.
$ 25	Per bed for each additional bed.

For further information contact your local CMHC office.

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APPENDIX V

Lender Appraisals

Canada Mortgage and Housing Corporation
Société canadienne d'hypothèques et de logement

ACCEPTANCE OF LENDER APPRAISALS

In order to qualify for the $100 (existing) or $150 (new) underwriting fee, lenders must submit an acceptable appraisal with the mortgage loan insurance application.

Lenders must use the CMHC Report Appraisal – Homeownership Units, (CMHC 2590). An example is provided in this folder.

The effective date of the appraisal must not be more than 60 days prior to the receipt of the Request-Undertaking-to-Insure, (CMHC 530), by CMHC.

Appraisals must be completed or reviewed and the certification signed by an appraiser holding either the Canadian Residential Appraiser (CRA) accreditation, the Accredited Appraiser Canadian Institute (AACI) designation from the Appraisal Institute of Canada, the Society of Real Estate Appraisers or La Corporation des Évaluateurs Agréés du Québec or their equivalent.

Designations provided by other appraisal associations are also acceptable if those associations have a reciprocal agreement with the Appraisal Institute of Canada.

For further information contact your local CMHC office.

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